

Risk management approach

The purpose of our approach to risk management is to **support better decisions** through an improved understanding of risk

Risk management is a core component of our governance and internal control framework, which provides the structure through which we conduct business.

Risk is inherent in our business and we face a diverse range of risk and uncertainties that cannot be completely eliminated. The purpose of our approach to risk management is to support better decisions through an improved understanding of risk. Those risks that have the potential to have a material impact on our company and our ability to deliver on our strategic objectives are our principal risks. Our risk governance model ensures that we can manage, monitor and report on our principal risks to maintain a resilient business. These risks are described on pages 127 to 130.

Managing risk

Our approach to risk management is designed to provide a clear and consistent framework for managing and reporting risks associated with our operations, to executive management and to the Board.

Our risk management framework is the totality of systems, structures, policies, processes and people that identify, measure, monitor, report and control or mitigate internal and external sources of risk.

The framework seeks to promote better decision-making, to strengthen our operational resilience and support the best outcomes and opportunities for the company and our customers through effective:

- **Risk identification and ownership:** understand the risk environment, identify the specific risks we face and assess potential exposure.
- **Risk assessment:** determine how best to manage identified risks to balance exposure.
- **Risk response:** take action to manage the risks we do not want to be exposed to, ensuring our resources are effectively and efficiently prioritised and used.
- **Risk monitoring, reporting and escalation:** report on a quarterly basis to the Executive Risk Committee, Audit Committee, and the Health and Safety and Operational Risk Committee and to the Board on a periodic basis on how significant risks are being managed, monitored, assured and the improvements that are being made.
- **Risk appetite and communication:** use our analysis to support the Board’s determination of risk appetite and to monitor and report against it.



Across the company our risk management approach is embedded within the business directorates and their business processes. We have established a risk management approach that provides a consistent basis for measuring risk to:

- establish a common understanding of risks on a like-for-like basis, taking into account potential impact and likelihood,
- report risks and their management to the appropriate levels of the company,
- inform prioritisation of specific risk management activities and resource allocation.

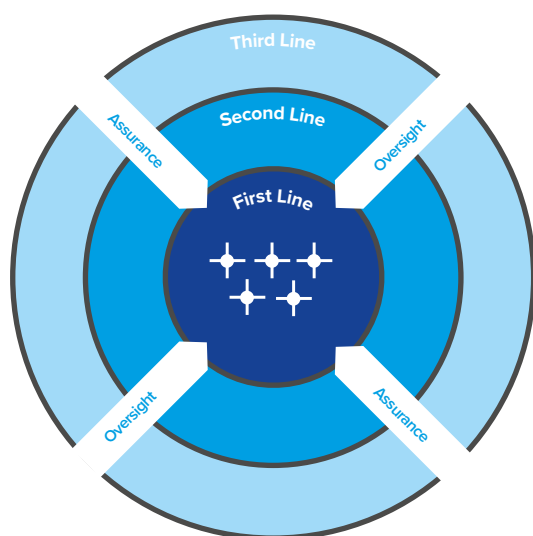
All areas of the company review significant risks and business processes to help inform and enable risk-based decision-making. As part of our annual planning process, the Executive Team and Board review the company’s principal and emerging risks.


Risk management approach continued

Three lines of defence

Our approach to risk management adopts the ‘three lines of defence’ model in which risk ownership responsibilities are functionally independent from oversight and assurance:

- Primary responsibility for risk management lies with the business. The risk owner is the first line of defence. An important part of the role of all employees is to ensure they manage risks appropriately.
- The Risk Management function forms the second line of defence and provides independent and objective review and challenge, oversight, monitoring and reporting in relation to material risks.
- Independent External Assurance and the Internal Audit function act as the third line and provide independent assurance on the business control environment and the effectiveness of the wider system of internal control.



 Risks to the business

First line


- The functions that own and manage risk.

Second line

- The internal functions that oversee risk and regulatory compliance activities.
- Provide guidance, direction and oversight.
- Develop the related assurance frameworks.

Third line

- Provides independent assurance on the business control environment, and the effectiveness of the wider System of Internal Control.

 Read more about the Board's role in mitigating risks on pages 177 to 178

The next 12 months

The coming year will see continued integration of our risk management framework and approach. This will see risk management efforts focused on maturing our activities in a number of areas, including:

- Advancing a dynamic risk-aware culture throughout the company.
- Enhanced risk reporting to the Board, Board Committees and Executive Team.
- Continued training across the company to embed our business partnering model and to develop their enterprise risk profiles and support risk-based decision-making.
- Strengthening our analytical risk management capabilities through use of our Governance, Risk and Compliance (GRC) system to utilise enhanced risk management data and insights to facilitate risk-based decision-making and deliver business intelligence reporting.

The continuous improvements that we are making with our risk management approach are setting the company up for future success. As we further embed these improvements, we will be able to demonstrate to our customers and external stakeholders that the decisions we make are considered, well thought through, and demonstrate continued commitment to our values.

Risk oversight and governance

Risk oversight and governance

To successfully embed risk management, the process is supported by a governance structure that defines roles and responsibilities at each level of the company. The Board has overall accountability for risk management but discharges this role through the Audit Committee. It oversees and advises on enterprise and corporate risks, while the Health and Safety and Operational Risk Committee oversees and advises on operational risk.

Role of the Board

The role of the Board is to promote the long-term sustainability of our company and our responsibilities to shareholders, customers, employees, and the communities in which we operate. It has overall responsibility for risk management within the company.

The Board is responsible for maintaining an effective risk culture and is committed to:

- reviewing, endorsing and monitoring our approach to risk culture and conduct
- forming a view on our risk culture and the extent to which it supports our ability to operate consistently within our risk appetite.

The Board defines our risk appetite, enabling the company, in both quantitative and qualitative terms, to judge the level of risk it is prepared to take in achieving its overall objectives.

Our risk appetite is directly aligned to our principal risks. The risk appetite for each of these underpins our governance and reporting framework and is subject to regular review by the Board. The alignment of our principal risks with risk appetite allows for an informed analysis and discussion of our risk position and provides the Board with the insight to make key-decisions.

As a company we are tolerating a level of risk which is outside our current risk appetite and is reflected in the review of our principal risks in the coming pages. This can result in more focus on short-term issues than longer-term resilience.

The Board ensures the oversight and monitoring of our risk culture, risk appetite and risk management activities through the Audit Committee.

Role of the Audit Committee

The Audit Committee is responsible for the review of the company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems. It advises the Board on the company's overall risk appetite, tolerance

culture and strategy, taking into account the current and prospective regulatory, legal, political, macroeconomic and financial environment with the Board retaining overall ownership and approval.

The Audit Committee oversees and advises the Board on current risk exposure and longer-term strategic risks to determine our future risk strategy. It also has a key role in risk assessment:

- reviewing the company's overall risk assessment processes for enterprise and corporate risks that inform the Board's decision-making, ensuring qualitative and quantitative metrics are used;
- reviewing regularly and approving the parameters used in these measures and the methodology adopted; and
- setting a standard for the accurate and timely monitoring of large exposures and corporate risk types of critical importance.

In addition, the Audit Committee reviews the company's capability to identify and manage new and emerging risk types and reviews reports on any material breaches of risk limits and the adequacy of proposed action.

Role of the Health and Safety and Operational Risk Committee

The Health and Safety and Operational Risk Committee is responsible for the oversight and assessment of the overall adequacy and effectiveness, of the health, safety and wellbeing policies, strategies; processes and controls; operational risk management and compliance with relevant legal and regulatory requirements, with the Board retaining overall ownership and approval.

The Health and Safety and Operational Risk Committee has a key role in:

- reviewing the areas of significant corporate and individual health, safety, wellbeing and operational risk whether the executive is managing these risks effectively, including via the supply chain;
- reviewing the company's health, safety, security and wellbeing performance;
- reviewing operational risk and risk management of information security, information governance, water, wastewater and customer services;
- reviewing of the scope, and results, of any: health, safety, wellbeing, information security, information governance, water, wastewater and customer operational risk audits; and
- considering the findings of internal and external investigations and executives' response.

Risk oversight and governance continued

Role of the ESG Committee

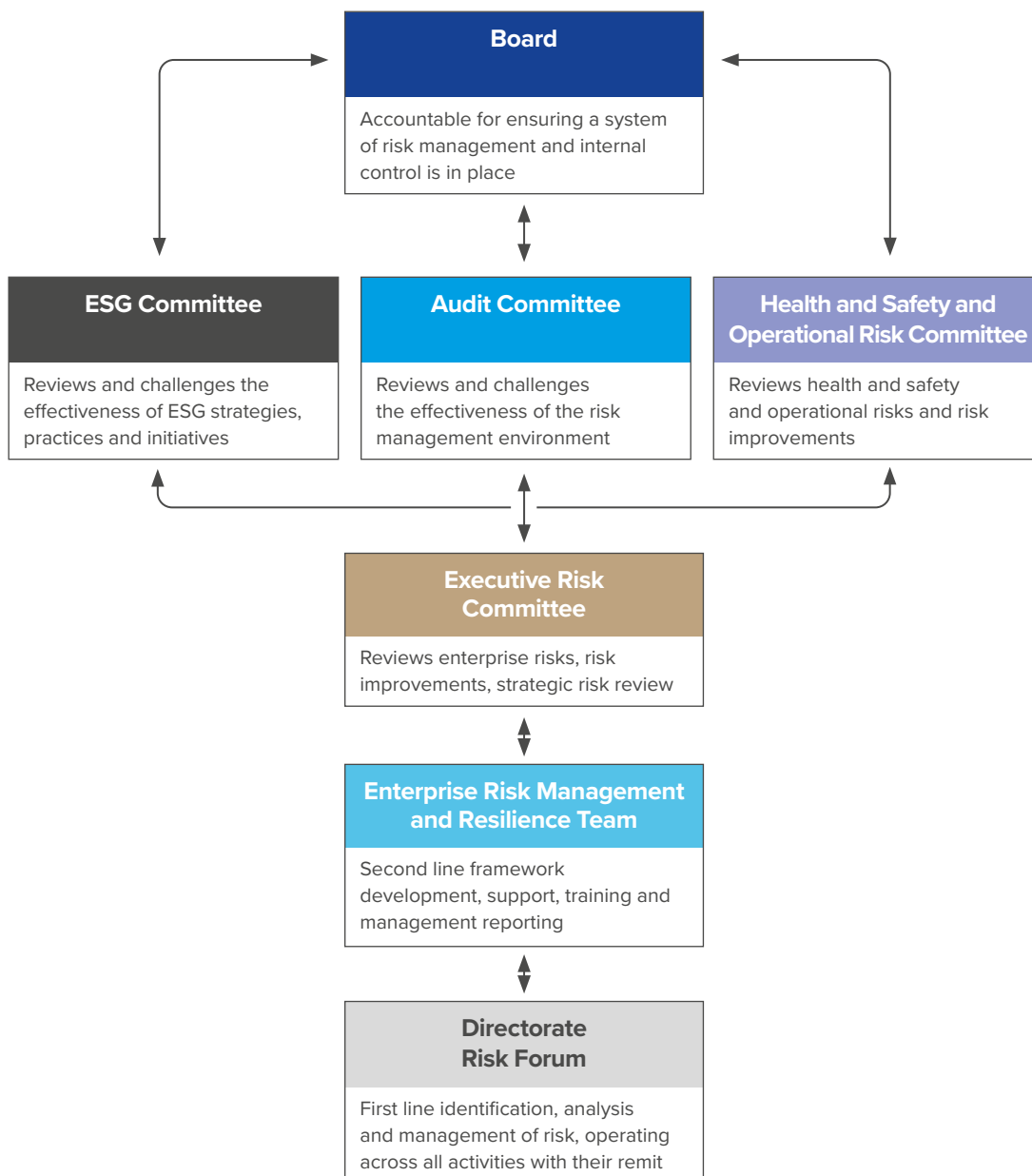
The ESG Committee was formed in 2022 to provide greater oversight and consideration of the material environmental, social and governance matters relevant to the company’s activities.

ESG Committee is responsible for the review of the risks related to our environment, social, and governance practices, commitments, policies, and strategies.

The ESG Committee has a key role in:

- reviewing our progress and performance on Net Zero Plan delivery;
- ensuring the effective operation and delivery of our annual Climate Change Action Plan;
- providing oversight on the adoption and implementation of climate related disclosure regulations.

Key risk and governance responsibilities include:



Emerging and principal risks

➔ Read more on our principal risks on pages 127 to 132

Emerging risks

We regularly consider new, changing, or emerging risks that could affect our ability to achieve long-term objectives. We define emerging risks as uncertain future events that are challenging to assess due to their unpredictable nature or lack of reliable information. We undertake regular horizon-scanning exercises to identify and monitor emerging risks. Our risk assessment process monitors available management information from a wide variety of internal and external business and environmental sources and analyses potential causes, impacts, likelihood, and the time frame over which a risk could occur. Our immediate horizon scan reviews possible emerging risks and their potential impact on the company within the next five years. These include:

Emerging risk	Description	Relevant activity
DWI enforcement regime	In early 2021, the Drinking Water Inspectorate (DWI) began work to change its method of regulatory enforcement to consider a new approach to include a punitive financial penalty regime within its regulatory framework. Southern Water is currently subject to a number of DWI notices; this could lead to a risk of additional financial penalties.	We continue to work closely with the DWI to respond and resolve our open notices in a timely manner. We are committed to reform and improve our performance related to our business operations and our provision of a sufficient supply of high-quality drinking water.
Escalating global conflicts	In 2022, war broke out in Europe between Russia and Ukraine. Tensions continue to escalate between the United States and China, Iran and Israel and in the Korean peninsula.	We are monitoring the potential expansion of global unrest to include new areas of conflict or types of conflict, resulting in new types of or expanded risk consequences, especially in relation to our supply chain and IT network.
Rainfall patterns and extreme weather	The changes in rainfall patterns and extreme weather resulting from global warming are creating a wider impact on our natural environment, including drought mitigations, flood defences and land erosion.	Associated risks are assessed and mitigated within our wider climate change strategies, our published Drought Plan and in our Drainage and Wastewater Management Plan (DWMP) to specifically address storm overflow reform and the Flood Action Plan.
Climate action failure	Climate action failure is defined by the failure by governments, corporations and businesses to take up active climate change mitigation measures and help protect ecosystems and livelihoods around the world.	We are committed to understanding the evolution and impact of climate change on our business and on the natural water supply and ecosystems. Associated risks are assessed and mitigated within our wider climate change strategies and we use our insight and knowledge to help policymakers craft their strategies and legislation to support and advance climate effective change solutions.

Emerging and principal risks continued

Principal risks

Those risks that have the potential to have a material impact on our company are our principal risks. We manage, monitor and report on the principal risks that can impact our ability to deliver our objectives. As part of our annual planning process, the Executive Team and the Board review the business's principal risks. These may be updated during the year in response to changes in internal and external circumstances.

We currently have 12 principal risks. These are a key feature of our risk taxonomy and risk appetite. Our principal risks reflect our commitment to our values: doing the right thing, succeeding together, always improving and working with care. We review our principal risks and their risk components on an annual basis, ensuring emerging risks are reflected and that the current structure adequately reflects the risk context in Southern Water.

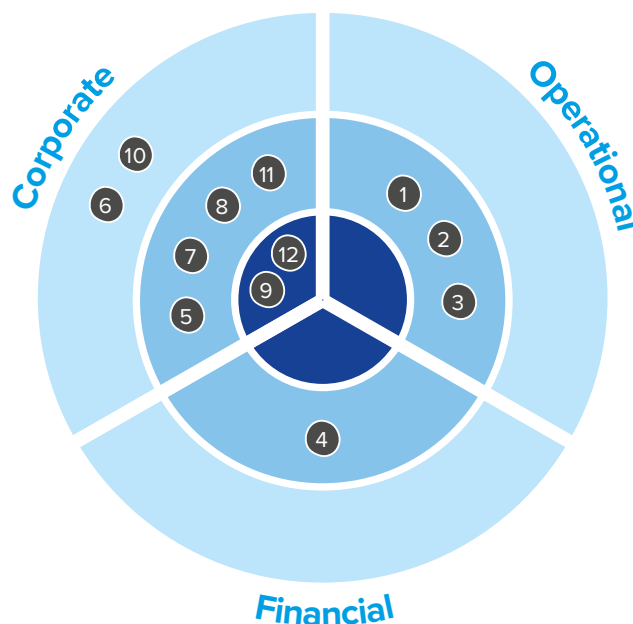
In 2022, our business was challenged by the impact of the ongoing war in Ukraine that intensified supply chain delays and failures, fuelled inflation and energy price increases, and had a deteriorating effect on our principal risks. We had to rapidly adapt to this changing operational environment to mitigate these accelerating macro-environmental influences.



Principal risks

Principal risk radar

The principal risk radar provides an indicative view of the current risk position of each of the principal risks, relative to each other.



- Improving
- Stable
- Deteriorating

Risk	Category	Risk climate	Commentary
1 Water	Operational	Stable	We are challenged by several significant water supply disruption events on key operational sites which have resulted in an increased interruption of supply to our customers.
2 Wastewater	Operational	Stable	We are challenged to manage an increase in capacity demand and extreme weather events while meeting our regulatory targets.
3 Customer	Operational	Stable	We continue to support our customers through supply and service events and the challenges of the current cost of living crisis.
4 Financial	Financial	Stable	We are working with Shareholders to bring in additional finance to the company to support long-term financial resilience, in addition to strengthening our internal financial control environment.
5 Compliance	Corporate	Stable	We remain under continued scrutiny by our regulators as we transform and deliver on our business plan.
6 Climate Change	Corporate	Improving	Planning and mitigation for climate change is embedded in our long-term strategic plans e.g. DWMP, WRMP, WINEP).
7 Delivery	Corporate	Stable	We are challenged to deliver our capital investment delivery programme and Opex funded strategic projects due to prolonged macroeconomic conditions.
8 Information Technology (IT)	Corporate	Stable	The global heightened cyber security threat has increased risk in this area. Our IT estate requires continual monitoring and improvement to maintain resilience.
9 Resources	Corporate	Deteriorating	Global inflationary pressures and disruption in goods or services availability has delayed supply and significantly increased our operational and capital costs.
10 Health, Safety, Security & Wellbeing	Corporate	Improving	Our Health and Safety Transformation Programme is designed to improve our operations, comply with regulations and embed our Safety-First culture across the business.
11 Corporate Affairs	Corporate	Stable	We have increased our communications in relation to service event management and recovery and work closely with our communities and regulators to support and influence the protection of our natural environment.
12 People	Corporate	Deteriorating	We are challenged to manage and develop our workforce in a competitive employment environment that has been strongly influenced by rising inflation and the current cost of living crisis.

Risk climate ▲ Improving ➤ Stable ▼ Deteriorating

Principal risks and uncertainties

Risk Climate Key:

▼ Deteriorating

▲ Improving

◀ Stable

Operational risk

1 Water

We must make sure we can supply enough good quality drinking water to cater for a growing population of more than 2.7 million people across the region. Warmer summer weather and colder winters over the past two decades impact our supply/demand balance and increase our risks in relation to drought or significant water source depletion. Should we experience, water contamination, water treatment or distribution network failures, there is a risk that water may be unfit for consumption or customers may experience disruption to their water supply.

Executive accountability:

Director – Wholesale Water

Risk climate: ▶▶

Following one of the driest summers on record in 2022, we have experienced a winter season that has seen higher than average rainfall which has replenished our groundwater sources, reservoirs and rivers.

Aside this, we continue to work hard at reducing leakage, which was impacted by the hot summer of 2022 and cold winter of 2022–23. We have employed digital technology to address network leakage performance, increased our field resource, continue to invest in pressure calming solutions, and have expedited speed of repair by a factor of 2.

During the year, we were challenged by several significant water supply disruption events on key operational sites which have resulted in an increased interruption of supply to our customers. We are continuously working to improve the reliability of our water supply works by putting in place new assets and improving maintenance. Our event management and operational control teams deployed immediate response and repair plans, along with establishing bottle water stations and issuing up to date communications across several media platforms to keep customers informed.

We have improved our logistics capability so we can move people and materials around faster, 24/7. This includes a new tanker fleet, storage of critical spares and an overhaul of our work management processes. We have also, improved the management and control of our sites and networks and our core systems and processes

Mitigating strategy:

- Water for Life – Hampshire, a programme of significant capital and asset improvements to provide long-term resilience.
- Water First, our improvement programme strengthening internal processes and asset performance.
- Improving the reliability of our water supply works by undertaking a complete overhaul of our four main sites, benefiting 62% of our customers.
- Investing to improve our leakage position with installation of more loggers, new data points and pressure management calming tools.
- Upgrading our logistics capability.

Cross reference:

- ➔ Read more about how we are understanding and supporting our customers and communities on pages 42 to 51.
- ➔ Read more about how we ensuring a supply of high-quality water for the future on pages 52 to 58.

Operational risk

2 Wastewater

We are committed to provide our customers with reliable wastewater services essential to maintain public health and protect the environment.

Periods of excessive rainfall or extreme weather may cause drainage and flooding issues. If operational wastewater treatment assets, our wastewater network or processes fail, we may discharge non-compliant sewage. These events may cause risks to the environment or public health from pollution and/or sewer flooding.

Executive accountability:

Director – Wastewater

Risk climate: ▶▶

Our performance has been significantly challenged, specifically in light of increased capacity demand, fluctuations in extreme weather events and challenging regulatory targets. Improving our pollution performance is a key focus for the business and is supported by our strategic Turnaround Plans and our Pollution Incident Reduction Plans. We are building capacity and resilience at our wastewater treatment works and system networks to reach 99%+ compliance with treatment and permit standards to reduce pollution occurrences and the impact our operations might have on the environment. This means making sure our pumping stations and networks continue to operate effectively as our climate changes. We have established a dedicated Clean Rivers and Seas Task Force to enhance our network assets and reduce blockages, including an investment of £5 million to implement our Pathfinder projects to tackle the root cause of the storm overflows. We continue to work closely with our customers, the general public and stakeholders with respect to our impact on the environment; with a key focus on spills to the environment in rivers, chalk steams and bathing waters.

Mitigating strategy:

- Over £1.5 billion investment to 2025 to improve the capacity, capability and resilience of our wastewater network across the region to ensure our pumping stations and networks continue to operate effectively as our climate changes.
- Increased investment in Storm Overflow programme.
- Updated and enhanced Pollution Incident Reduction Plan.
- Updating our maintenance standards and proactive control to stop assets failing and developing an improved emergency response.
- Digitalisation of our sewer network to reduce pollutions and flooding, using industry-leading monitors, artificial intelligence for prediction and maintenance.
- Effective Event Duration Monitoring (EDM) and the expansion of EDM coverage on Beachbuoy, our online tool for information on storm release activity near coastal bathing waters.
- Improving training, development, and productivity by upskilling our front-line colleagues.

Cross reference:

- ➔ Read more about how we protect and improve the environment on pages 59 to 68.

Principal risks and uncertainties continued

Risk Climate Key:

▼ Deteriorating

▲ Improving

◀▶ Stable

Operational risk

3 Customer

We are committed to providing an excellent customer experience, as expected by our customers and regulators. We are prioritising our customer experience by ensuring that every colleague understands and responds to our customers and their unique needs.

When we experience interruption to services there is a risk that we are not able to deliver the standard of service expected by our customers. During these periods, we seek to address and rectify the cause of the underlying issues while also proactively managing our customers concerns in a timely manner.

Executive accountability:

Chief Customer Officer

Risk climate: ▶▶

During the year, our service delivery has been challenged by a number of significant supply events that have resulted in a customer supply disruption, prolonged outage and it has negatively impacted our customers view of our performance and reputation. This was reflected in our annual customer satisfaction (C-MeX and D-MeX) performance metric measures and is a key area for our focused rebuild and improvement. In response, we enhanced our customer communications by implementing customer text messaging during incidents to keep them informed and up to date on our repairs and return to service timelines. We are also developing a new customer website which will enhance our customer service and experience.

To manage current economic pressures, household bills were increased in line with inflation. However, we continue to support our most vulnerable customers who have been most impacted by this cost of living crisis. We increased our social tariff cross-subsidy from £6.00 (for a dual service customer) to £8.50. This will allow us to increase the minimum discount offered from 20% to 45% and will support a further 21,000 customers in addition to the 107,000 who could be supported through the lower subsidy amount.

Mitigating strategy:

- Improving the digital customer experience including video assistant, a new website, improving customer journeys, data quality and complaints process.
- Enhancing our Customer Culture through customer promises and customer service training for all colleagues and partners.
- Better engagement with our communities through improved multi-channel and direct communications, education programmes and regular stakeholder forums.
- Supporting customers in vulnerable situations by improving our priority services during incidents and our social tariff offering.

Cross reference:

- ➔ Read more about how we are understanding and supporting our customers and communities on pages 42 to 51.
- ➔ Read more about how we ensuring a supply of high-quality water for the future on pages 52 to 58.

Financial risk

4 Financial

We are committed to managing the financial position of the company to ensure sufficient liquidity to meet our funding requirements and maintain service delivery for our customers. In the past two years we have been challenged by sustained macroeconomic volatility, leading to prolonged financially uncertain outlook. This is impactful to our ability to raise finance to fund the capital investment programme and to refinance debt maturities. Our internal cost control remains a key focus for all teams across the business.

A failure to maintain certain credit ratings could lead to an increase in interest cost, reduced availability of new capital and breach of our license conditions.

Executive accountability:

Chief Financial Officer

Risk climate: ▶▶

Sustained macroeconomic volatility has increased pressure on our operating and capital budgets and created significant cost control issues. Additional cost control pressures have arisen from our response activities to our water supply outages and pollution events. This has resulted in some delays and impacted our current business plan, delivery plan and funding. We are working to strengthen our financial controls and to implement systems and processes to reduce these operational events. We are currently preparing our Business Plan 2025–30, which will outline our ambition and determine our future funding.

We have engaged with our shareholders to seek an additional £550 million of equity funding for the group, of which £375 million would be injected into the regulated entity, SWS, to allow it to invest even further above its regulatory funding for this regulatory period; we anticipate this process to conclude later in 2023.

We completed some financing activity in 2022–23 and expect to secure additional external financing in the year ahead to support our business plan ambitions and delivery. We continue to be at risk of a credit rating downgrade as a result of our poor operational performance and rapidly rising inflation. Our credit ratings are provided on page 128.

Mitigating strategy

- Liquidity testing and reporting is carried out on a regular basis, forming part of the 'going concern' assessment
- Sufficient cash and facilities are maintained to mitigate such risks as bond market closures
- Flexible dividend policy supports management of financial risk
- Detailed budgetary scrutiny of operational spend
- Improved operational performance.

Cross reference:

- ➔ Read more about our financial performance on pages 102 to 119.

Principal risks and uncertainties continued

Risk Climate Key:

▼ Deteriorating

▲ Improving

◀ Stable

Corporate risk

5 Compliance

As a regulated industry, we are committed to meeting an expected high standard of compliance with regulatory and corporate legislation.

Failure to comply can result in regulatory enforcement, fines, legal action and, in the worst case, the loss of our licence to operate as a water and wastewater company. Existing and changing legal and regulatory requirements encourage the business to operate in an agile way to ensure continued compliance with our obligations.

Executive accountability:

General Counsel

Risk climate: ▶▶

We remain under continued scrutiny by our regulators. We are continuing our work to resolve a number of prior years prosecutions by the Environment Agency (EA) for wastewater permit breaches, sampling processes and governance approach. We continue to assist the EA with its ongoing investigations into these legacy issues and with their national investigations into flow compliance. The Drinking Water Inspectorate (DWI) and the EA continue to monitor our delivery of regulatory schemes (outputs) and this is likely to continue in the future.

During the year we received six Final Enforcement Orders in relation to delays in the delivery of our key capital works for the current business plan. We are working with our regulators to prioritise the delivery for those key sites, and have detailed supporting work plans in place.

Mitigating strategy:

- Delivery of key transformation and training programmes in both water and wastewater parts of the business.
- Ensuring appropriate governance through the embedding of a robust Three Lines of Defence compliance model.
- A compliance framework with internal monitoring and assurance and an ethical business framework.
- Compliance with company procedures is reviewed through our Statement of Compliance self-assessment every six months.
- Transparent communication with our various regulators.

Cross reference:

➔ Read more about our three lines of defence on page 121.

Corporate risk

6 Climate change

We are committed to understanding the impacts of climate change and appropriately adapting our business operating model to ensure reliable continuity of service to our customers while protecting our natural environment and resources.

Failure to improve our resilience to the effects of climate change will impact our ability to deliver a sustainable supply of water to meet the growing demands of our customers and our ability to effectively manage the capacity and capability of our assets and sewer network. We must be resilient to both the physical effects, from extreme or prolonged weather events that could lead to flooding, pollution or damage to operational sites from coastal erosion or subsidence, and from transition risks including changes in policy, regulation and markets.

Executive accountability:

Chief Executive Officer

Risk climate: ▲

Extreme weather events are becoming more frequent. Severe winter storms and heavy rainfall impact our ability to effectively manage flooding and pollution events. Extended periods of dry weather greatly reduces the reliable availability of our water supply. We are challenged to balance the limitations of our stringent abstraction licences with our ability to meet customer demand while protecting our natural resources and the environment.

We are a long-term business and as such we are required to produce a number of strategic plans that include consideration of the long-term management of our water and wastewater assets to ensure that they continue to be available to provide services to customers and adapt to the changing environment we live in.

These include our published draft Water Resources Management Plan, which sets out how we will balance supply and demand for water over the next 80 years, and our first ever draft Drainage and Wastewater Management Plan, which analyses the key wastewater challenges and solutions in each of our drainage catchments over the next 25 years. We are currently in the process of producing our business plan submission for 2025–30 which will outline the investment we need to make to our assets, including mitigating and adapting to climate change risk.

Mitigating strategy:

- Annual Climate Change Adaptation Report.
- Net Zero Plan.
- Water Industry National Environment Programme (WINEP).
- 50-year Water Resources Management Plan (WRMP).
- Target 100 water efficiency programme.
- Drought Plan.
- Investment in new infrastructure.
- Drainage Wastewater Management Plans (DWMP).
- Operational resilience plans.
- Bioresources strategy.

Cross reference:

➔ Read more about our approach to tackling climate change on pages 75 to 95.

➔ Read our Climate Adaptation Report: [southernwater.co.uk/our-performance/reports/climate-adaptation-consultation](https://www.southernwater.co.uk/our-performance/reports/climate-adaptation-consultation).

Principal risks and uncertainties continued

Risk Climate Key:

▼ Deteriorating

▲ Improving

◀ Stable

Corporate risk

7 Delivery

We are committed to the delivery of our business plan 2020–25. We have significantly invested in upgrading our existing operational sites and sewer networks and developing our capital programme. We have also increased our investment in technology to advance our ways of working to deliver a more responsive customer experience. In the past 12 months we have developed a long-term strategy and plans for significant improvements and upgrades to our four large water treatment plants at Testwood, Otterbourne, Hardham and Burham between now and 2032. We are currently preparing our business plan (2025–30) for submission to Ofwat in October 2023.

Failure to deliver significant parts of the programme on schedule, will impact our ability to provide an excellent service to our customers, compromising or preventing us from fulfilling the commitments that we have made in our business plan and to our regulators.

Executive accountability:

Chief Operating Officer

Risk climate: ▶▶

The ambition of the current capital investment delivery programme combined with the current macroeconomic environment has increased pressure on our ability to deliver on time and within budget. We have launched four key strategic plans to focus our delivery for the remainder of our current business plan around water quality and security of supply, pollutions and environment, trusted and easy customer service and health and safety. Their delivery is supported by three enablers which prioritise financing and efficiency, people and IT/digitalisation.

We are currently in the process of producing our business plan submission for 2025–30 which will be our most ambitious to date. This reflects our long-term commitment to our customers and the protection of our natural environment.

Mitigating strategy:

- We have brought significant investment capability in house including:
 - An in-house engineering and capital delivery function
 - An established long-term delivery partner supply chain.
- Risk and value are considered at each step of the investment cycle to provide best value for money to our customers
- Monitoring the delivery of our Final Determination obligations, continually assessing our financing status.
- Procurement and planning process are underway and on track to support the 2025–30 business plan delivery.

Cross reference:

- ➔ Read more about our Long-Term Priorities and how they inform our five-year delivery strategy on pages 42 to 95.

Corporate risk

8 Information Technology (IT)

We are committed to providing IT services, capability and support to the business and improve our ways of working. We maintain the essential resources and processes to protect the company from external or internal attack, both physical and virtual and to protect our IT network, systems and data in accordance with our obligations under relevant regulations and legislation.

Failure to maintain the resilience of our operational and corporate IT networks and systems could have a significant impact on our business continuity, and the resilience and capability of our operational assets.

Additionally, we hold and process personal and payment data about our customers and employees. Failure to properly protect the data we hold could lead to reputational damage and loss of confidence from our customers, as well as significant fines under Data Protection (GDPR) and the Network and Information Systems (NIS) Directive.

Executive accountability:

Chief Information Officer

Risk climate: ▶▶

The sustained conflict between Russia and the Ukraine has increased the disruptive and destructive attacks on global organisations IT networks and systems by cyber hackers. This has escalated risks associated with cyber security across all businesses. We have adopted the National Cyber Security Centre’s (NCSC) Cyber Assessment Framework (CAF) to achieve and demonstrate an appropriate level of cyber resilience. We are continually reviewing and adapting the resilience of our approach to cyber security to ensure we are adequately protected from potential cyber threats.

As a mature company, our IT estate requires continual maintenance and improvement to deliver the required capability across the business. We are also challenged to manage the volume of demand from across the company for IT solutions and expertise for digital technologies to advance our various projects and programmes, and to meet customer and regulatory expectations.

Mitigating strategy:

- Business continuity processes reducing impact on IT systems.
- Active programme for migration of services off legacy infrastructure and onto new fully-managed infrastructure.
- Migration of existing critical and core service applications into the new data centres.
- Enhanced suite of IT general controls identified following alignment to the Network and Information System (NIS) – Cyber Assessment Framework.
- Continued investment in cyber threat mitigation strategies in response to the ever-changing risk landscape.

Principal risks and uncertainties continued

Risk Climate Key:

▼ Deteriorating

▲ Improving

◀ Stable

Corporate risk

9 Resources

We are committed to establishing a sustainable, resilient, outcome-based supply chain for the provision of essential goods and services to support the delivery of our business plan that can adapt to market shocks. These include the supply of Engineering, Construction and Asset Management Advice to support our capital delivery programme and repair & maintenance services, chemicals, fuel, and spare parts to ensure continuity of service across our network and operational sites, as well as the energy required to power our operational equipment on a continuous basis, at a commercially viable price. We use long-term contracts for the provision of critical goods, services and works, as well as outsourced activities. In the past year, global inflationary pressures and disruption in goods or services availability has continued to delay supply of some commodities and services, and increased our operational and capital costs.

Failure to appropriately protect the resilience of our supply chain could lead to significant business interruption and result in an inability to deliver our commitments to our customers and stakeholders.

Executive accountability:

Chief Financial Officer

Risk climate: ▼

During the year we have continued to be challenged by the rising costs of goods and services due to rapid inflation and delays or failures in the global supply chain. This has caused a significant impact on both our operational costs as well as the ability to deliver on our capital programmes and projects within scope and budget. In response, we have commenced a significant review of our operational supply contracts and have focused on establishing new supply chain frameworks for a wide variety of operational site services, using category spend management to drive opportunities, mitigate risk, benchmark prices, and achieve savings and efficiencies. We have also implemented an improvement in our contract management system and processes, and are looking at how we simplify our contracting approach to create the right conditions for improved supplier relationships that better position us as an 'attractive client' to secure best rates, resources and innovation. While our operating model employs several mitigation strategies to hedge the effect of these type of market events, it has not been possible to completely mitigate the current unprecedented economic conditions.

Recent macroeconomic influences have impacted capacity throughout our supply chain. This significantly impacts our external third party suppliers ability to deliver timely and cost effective goods and services and has created many challenges with managing performance, quality and consistency.

As part of our Business Plan submission for 2025–30, the procurement process for key contractors and suppliers for our capital delivery programme and network maintenance is underway. We have established a balanced scorecard to better align our supply chain to our strategic themes, this will be a core part of our supplier selection, tender evaluation, and supplier performance management. A Market Engagement Event was held on 7 February 2023 to outline the vision and strategy to the market.

Mitigating strategy:

- Hedging strategy is in place for energy cost fluctuations/increases to manage impact to end customers.
- An enhanced Contract Management framework was implemented to effectively work with suppliers.

Corporate risk

10 Health and safety

We are committed to ensuring that the health, safety, security and wellbeing of our employees and the public is of the highest priority. The nature of our work requires that our employees and contractors undertake activities or use equipment which, if uncontrolled, have the potential to cause significant harm. Failure to comply with our Health and Safety Management System and associated procedures could result in death, serious injury or adverse health effects.

Executive accountability:

Chief Executive Officer

Risk climate: ▲

The safety of our communities, colleagues, and supply chain partners remains our highest priority. Our recently launched Health and Safety Transformation Programme includes our new corporate value, Working with Care. Together they are designed to improve safety standards, establish a robust system of operational process reviews and inspections, comply with governing regulations and legislation and support our colleagues and contractors in their day-to-day work to embed our Safety First culture across the business. The results of this are already being seen in the 20% reduction in our Lost Time Incident Accident Frequency Rate experienced in the financial year 2022–23.

Mitigating strategy:

- A review and update of all our safety policies and procedures, including a new policy statement and the issuing of CEO empowerment cards to encourage adherence and challenge in the business.
- The rollout of a new, app-based, online Safety Reporting System to improve information flow, awareness and the management of hazards and incidents.
- Upgrading the capacity (by 50%) and capability of the H&S team to enhance investigations and deliver better support to frontline teams.
- Improving the safety of our colleagues when conducting physical work through the introduction of a new mobile AI based risk safety app.
- The allocation of ring-fenced monies to repair hazards identified by the workforce.
- Delivery of a behavioural change project, including an immersive actor led away day, a revised site audit and inspection plan, enhanced manager health and safety training and a mandated Senior Leadership Visit programme.
- Enhanced communications, including the launch of the fourth Corporate Value, Working With Care, our "Stop, Think, Act" campaign and target local initiatives.
- A new induction strategy, to update our existing training requirements and expand their application to cover our supply chain workforce to ensure that all personnel are aware of the potential dangers specific to each operational site.
- A continued focus at Board level with a Health and Safety and Operational Risk Committee.
- The integration of SafetyFirst in every meeting or activity, including at the Executive Safety Committee which has been expanded by 33% to cater for the growth in reporting.
- Enforce suppliers and delivery partner safety standards.
- Strategic Reviews of Security and Wellbeing.
- Managing our compliance through new systems, inspections and assurance.

Principal risks and uncertainties continued

Risk Climate Key:

▼ Deteriorating

▲ Improving

◀ Stable

Corporate risk

11 Corporate affairs

We are committed to engaging in regular and transparent communication with our customers and stakeholders. We appropriately monitor and adapt to any changes in our political and regulatory frameworks, or take a lead role to advocate and influence positive change to the political or regulatory landscape impacting both our industry and our natural environment.

Failure to do this may impact our relationships and reputation with our customers and stakeholders and may result in business disruption or regulatory fines.

Executive accountability:

Director of Corporate Relations

Risk climate: ▶▶

Our relationships with customers and stakeholders is strongly connected to our operational performance. During the year we were challenged by several significant service disruption events and noncompliant spills, which have resulted in an increase in customer complaints and negative media coverage. We understand that increased monitoring is essential to improve our wider environmental performance and to achieve a significant reduction in the use of storm overflows. We continue to invest in improvements to the timeliness and accuracy of our data. We have engaged in open conversations with our customers, community leaders and regulator and provide timely reporting of events to share causes, impacts and future mitigation to prevent re-occurrence. We are committed to improving our performance and accountability to rebuild our trust and connection with our communities.

Mitigating strategy:

- Work with our customers to understand their service delivery needs and expectations.
- Monitor developments in the requirements from all of our regulators on key issues.
- Maintain close dialogue with Government, Ofwat and other regulators on key issues.
- Continue to engage constructively with all of our regulators in regards to the water scarcity challenges.
- Investment Pathfinder projects to improve CSO performance.
- Investment in Event Duration Monitoring (EDM) and the expansion of EDM coverage on Beachbuoy, our online tool for information on storm release activity near coastal bathing waters.
- Work with our regulators on how we better understand and address our customers' needs to enable successful outcomes in the next business plan period 2025–30.

Cross reference:

- ➔ Read more about our Long-Term Priorities and five-year delivery strategy on pages 42 to 95.

Corporate risk

12 People

We are committed to attract, retain, and establish succession planning to maintain a workforce of the right people, with the right skills for the role. This is a central part of our long-term strategy and our ability to ensure the company is agile and adaptable to change.

We have designed our people risk framework to support a diverse and inclusive culture that promotes employee engagement and demonstrates the desired conduct and behaviours that align with our values. It includes building and retaining an industry-leading workforce and managing our people to upskill and develop our talent. This means we can ensure that we have the right resources to support our operations while implementing HR processes and procedures that support, protect and manage our people, and provide a fair and transparent reward and recognition programme.

Failure to develop our workforce and implement a successful succession planning programme across the business can significantly impact our service delivery and result in business interruption and our ability to meet our customer and regulatory commitments.

Executive accountability:

Chief People Officer

Risk climate: ▼

We continue to manage challenges in relation to talent attraction and retention especially in the Technical and STEM roles. Our recruitment efforts are also impacted in part by our geographic location. In the past year, the already competitive employment environment has been strongly influenced by rising inflation and the current cost of living crisis. We have established industry relationships with specialty recruitment partners to help us manage our talent attraction strategy. We are committed to supporting an empowering and collaborative work environment that recognises performance and facilitates career progression and development.

Mitigating strategy:

- Ongoing workforce planning analysis and high-level strategic talent reviews take place across the business to assess capability and capacity needs
- Development of a Talent Acquisition Strategy
- Our internal INSPIRE Academy supports in-role development and career progression
- Our recruitment strategy streamlines our best route to market
- Our annual engagement surveys assess our employee satisfaction with remedial action plans developed by teams
- Strong inclusion and diversity culture.

Cross reference:

- ➔ Read more on our people on pages 69 to 74.